

Royalty Policy Committee

Royalty Reporting on Retroactively
Approved PA & CA Agreements



Communitization Agreements

- CAs bring together parcels of land to satisfy drilling limitations imposed by formal State spacing orders/rules, and prevents the over development of a reservoir.
- CAs are processed by field offices, except in Wyoming, where all are reviewed by the Reservoir Management Group.
- CAs are often approved prior to when the 1st production notice is issued.
- Historically MMS did not want royalties reported until after 1st production notice was issued.

Communitized Agreements

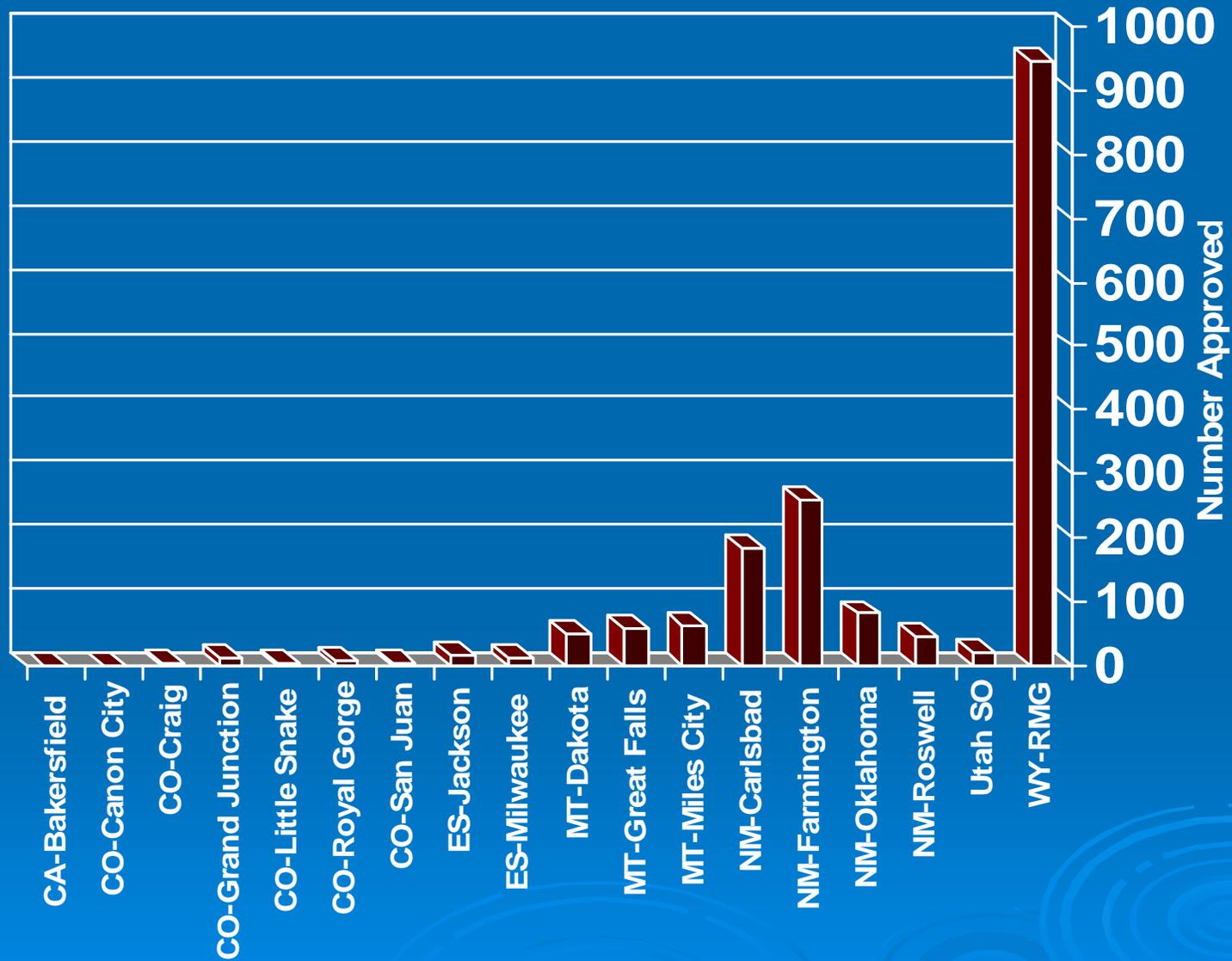
BLM Findings (January 2003 - March 2006):

- 1,778 Federal CAs approved throughout BLM with over half by the Wyoming RMG.
- Nationwide, about 14% of CAs were submitted prior to the well being drilled.
- Over one-third of the CAs were approved within one month of receipt.
- Nearly 90% were approved within one year.
- Current CA situation has improved and was not as bad as originally anticipated.

Wyoming Statistics

- CA submittal rate at peak was 27 per month.
- Backlog in January, 2003 was 157; reached a high of 274 in November 2004.
- Present backlog is 180 applications.
- Processing Unit Agreements and PAs, and preparing RFDs for RMPs higher priority than CAs.
- Wyoming RMG has identified more than 1,100 potential CAs.

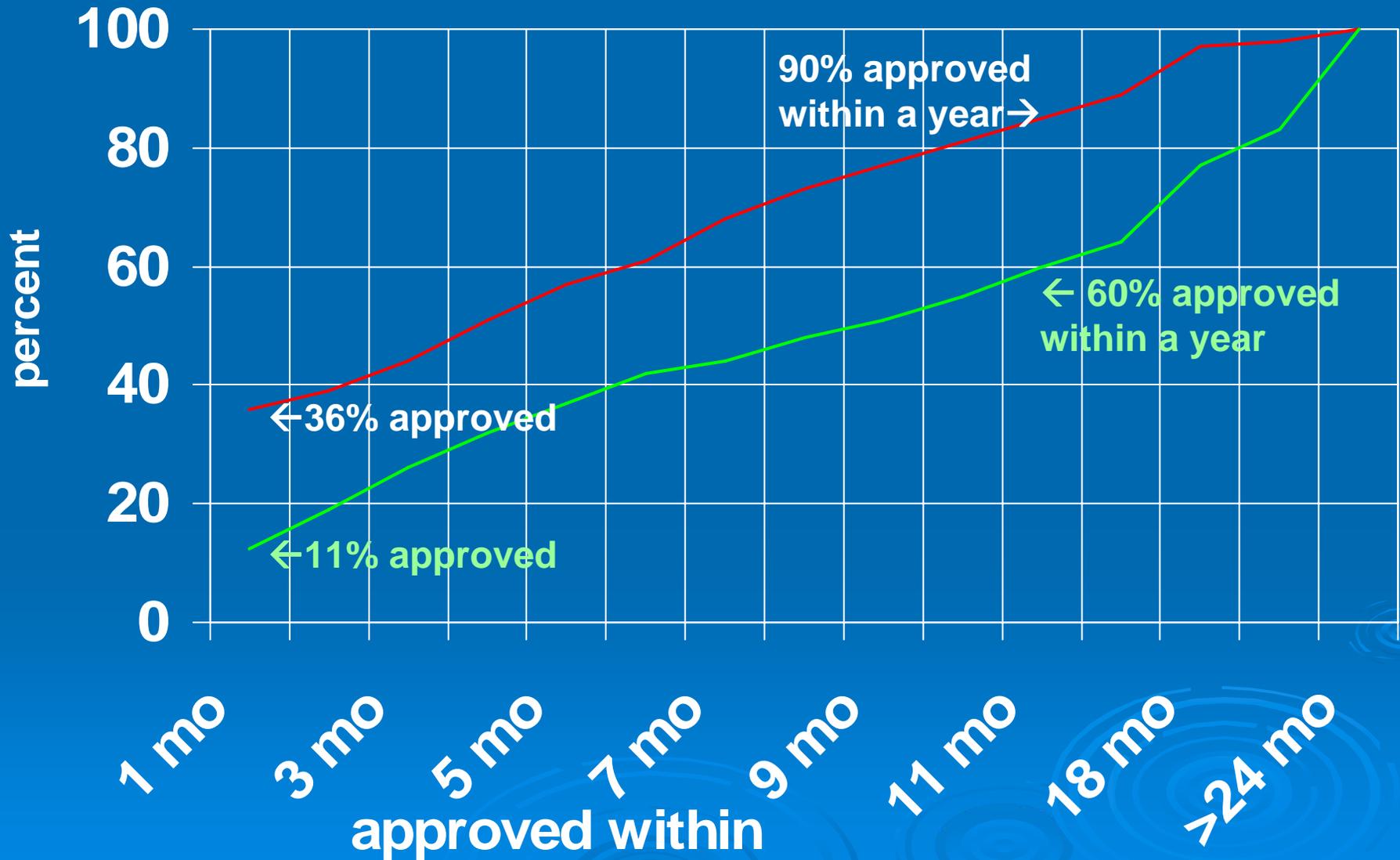
Number of CAs Approved, 2003-2006



Field Office

Time to Approve

— All Offices
— WY-RMG



Reasons for Delay Between Effective Date and Approval Date

- State/BLM sometimes must approve a spacing order before an application may be approved
- In most cases (>85%), the operator did not submit the CA until long after the well was completed.
- If operator does not timely submit a CA, the field office often must contact the operator.
- In 2003-2004, RMG was swamped by CA applications for CBNG wells in Powder River Basin

Recommendations For CAs

1. MMS to accept royalty lines for approved CAs whether or not 1st production notice was issued.
2. BLM to refresh IMs on 1st production notice and specifically address CBM wells.
3. BLM to develop procedures to monitor timely submission of CAs, follow-up with operators.
4. BLM to review annually status of field office approvals for backlog (identify any prioritization, training, resource allocation issues).
5. BLM to identify where importance on timely CA submission can be communicated to industry.

Participating Areas

- The PA is that part of a unit that has substances in paying quantities within which production is allocated in the manner described by the unit.
- PA can not be approved until the operator files a positive discounted cash flow which oftentimes requires 3-9 months of production.

Participating Areas

BLM Findings (periods since 1/1/2003):

- PAs always approved retroactively.
- BLM has approved 86 applications and issued 100 non-paying determinations.
- In most cases, operator filed timely PWDs.
- Average length for approval was 7 months.
- RMG has researched and made improvements to the CA and PA programs to address CBM handling.

Recommendations For PAs

1. BLM to develop procedures to monitor timely submission of PAs, follow-up with operators.
2. BLM to review annually status of field office approvals for backlog (identify any prioritization, training, resource allocation issues).
3. BLM to review Reservoir Management Group in Wyoming's report to determine if it can be applied more universally.
4. BLM to identify where importance on timely PA submission can be communicated to industry.

Approve Report

- Request RPC approval for the September 22, 2006 report.

Next Steps

- Started Rental Payment Process Review
- Held Workshop in Houston on October 24, 2006. Attended by Industry, MMS and BLM. Attendees included 36 employees of 17 oil and gas companies, 2 BLM employees, and 1 employee of the State of Texas University Lands.
- Identified some possible short/medium/long term solutions to various rental issues.
- Recommendations will be studied by the subcommittee as well as MMS.